

Message Text

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70

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 AID-20 EB-11 CIEP-02 TRSE-00 STR-08

OMB-01 CEA-02 INT-08 FEA-02 SCI-06 COME-00 FRB-02

XMB-07 OPIC-12 LAB-06 SIL-01 DRC-01 /204 W

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R 051706Z FEB 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7717

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS LONDON 01625

DEPARTMENT PASS TREASURY AND FRB

STATE ALSO FOR T/IEP

E.O. 11652:N/A

TAGS: EFIN, ENRG, UK

SUBJECT: CHANCELLOR BARBER'S REMARKS ON OIL SITUATION

BEGIN SUMMARY: IN A SPEECH LAST NIGHT (FEBRUARY 4) MADE BEFORE THE ANNUAL BANQUET OF THE OVERSEAS BANKERS CLUB, THE CHANCELLOR, WHILE FOCUSING ON DOMESTIC PROBLEMS AND THE BUDGET, SAID THAT AN UNORTHODOX SOLUTION WAS REQUIRED IN THE CURRENT OIL SITUATION. END SUMMARY

1. IN PREPARATION FOR THE WASHINGTON ENERGY CONFERENCE AND PREPARATION COMMITTEE MEETING ON FRIDAY, WE ARE UNCLASSIFIED

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REPORTING IN DETAIL SECTIONS OF CHANCELLOR BARBER'S

SPEECH WHICH EXPRESSES CURRENT BRITISH THINKING ON THE OIL SITUATION.

2. THE CHANCELLOR SAID IN HIS SPEECH BEFORE THE OVERSEAS BANKERS CLUB THAT THE RECORD INCREASE IN OIL PRICES POSED PROBLEMS FOR THE WORLD'S INTERNATIONAL FINANCIAL AND MONETARY SYSTEM WHICH COULD NOT BE SOLVED BY ORTHODOX SOLUTIONS. THE SITUATION WAS A CHALLENGE TO THE INGENUITY AND COMMONSENSE OF THE INTERNATIONAL COMMUNITY BECAUSE IT POSED A THREAT TO SUSTAINED ECONOMIC GROWTH AND TO WORLD TRADE AS WELL AS TO THE SUCCESSFUL CONTAINMENT OF INFLATION.

3. MR. BARBER NOTED THAT THE CONSENSUS OF OPINION AT THE C-20 MEETING IN ROME - WHICH HE REGARDED AS BEING OF "FUNDAMENTAL IMPORTANCE" - WAS THAT THE SO-CALLED "NORMAL" SOLUTIONS WERE NO LONGER APPROPRIATE.

QUOTE BY THIS I MEAN THAT, AS FAR AS THE OIL DEFICITS ARE CONCERNED, THERE WAS NEAR UNANIMITY THAT WE SHOULD REJECT THE ORTHODOX SOLUTION OF RELIANCE ON DOMESTIC DEFLATION ASSOCIATED WITH EXTERNAL MEASURES SUCH AS DEPRECIATION OF THE EXCHANGE RATE. AND WE REACHED THIS CONCLUSION FOR A REASON WHICH, WHEN CLEARLY STATED AND PERCEIVED, MAY SEEM SELF-EVIDENT - THAT GIVEN THE INABILITY OF MAJOR OIL SUPPLIERS IN THE SHORT RUN AT LEAST TO SPEND ALL THEIR RECEIPTS, THERE IS SIMPLY NO POSSIBILITY OF RESTORING THE IMBALANCE OF CURRENT EARNINGS UNQUOTE. IN THIS SITUATION, THE CHANCELLOR CONTINUED, IT COULD ONLY BE SELF-DEFEATING FOR INDIVIDUAL OIL-IMPORTING COUNTRIES TO ADOPT THE PRE-DATORY POLICY OF SEEKING TO SHIFT THEIR OWN BALANCE OF PAYMENTS PROBLEMS ON TO OTHERS.

4. FINALLY, ON THIS POINT THE CHANCELLOR SAID THAT CLEARLY THE IMPACT OF THE INCREASED OIL PRICES WOULD VARY FROM COUNTRY TO COUNTRY AND THIS MEANT THAT THE RESPONSE TO THE SITUATION MUST INVOLVE TWO FURTHER ELEMENTS. FIRST, COORDINATION OF BALANCE OF PAYMENTS OBJECTIVES, SO THAT THE PROCESS OF ADJUSTMENT REFLECTED THE DIFFERENTIAL EFFECT OF INCREASED OIL PRICES AND, SECOND, THERE MUST BE INSTITUTIONAL ARRANGEMENTS ADEQUATE TO DEAL WITH THE NEW UNCLASSIFIED

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OIL PRICE DEFICITS, INCLUDING THE REDISTRIBUTION OF FLOWS.

5. THE REST OF THE SPEECH DEALT WITH DOMESTIC ECONOMY WITH THE CHANCELLOR EMPHASIZING THE DEFLATIONARY INFLUENCE OF HIS DECEMBER BUDGET CUTS AND THE LATEST OIL PRICE INCREASE. SETTING THE SCENE FOR THE COMING BUDGET HE SAID " I HAVE NO DOUBT THAT THE MOOD OF THE BRITISH PEOPLE IS SUCH THAT THEY WOULD READILY ACCEPT WHATEVER

MIGHT BE NECESSARY."

6. TEXT OF THE SPEECH WILL BE FORWARDED BY AIRGRAM.

ANNENBERG

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
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Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Enclosure: n/a
Executive Order: N/A
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30 JUN 2005

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TAGS: EFIN, ENRG, UK, US
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